FHWA's
INNOVATIVE FINANCE
Quarterly

VOLUME 6, NUMBER 1 WINTER/SPRING 2000

FEDERAL CREDIT PROGRAM

Next TIFIA Round Slated for Summer

Potential applicants for direct loans, loan guarantees, and lines of credit under the U.S. Department of Transportation's (USDOT) new credit program should expect an application due date in early summer for fiscal year 2000 assistance.

Program Background and FY 1999 Selections

The Transportation Infrastructure Finance and Innovation Act (TIFIA) credit program was enacted in June 1998 as part of the Transportation Equity Act for the 21st Century (TEA-21), the landmark surface transportation reauthorization bill. Under TIFIA, the USDOT may provide up to $10.6 billion in Federal credit assistance to surface transportation projects during the period covering fiscal years 1999 through 2003. The USDOT launched this new pilot program with the publication of implementing regulations in June 1999, and accepted the first round of applications in August 1999. In September 1999, USDOT Secretary Slater announced the first five recipients of TIFIA credit support totaling $1.6 billion as shown in the table below. (Please refer to the Summer/Fall 1999 edition of *IFQ*, Volume 5, Number 2, for more detailed descriptions of these projects.)

Basic Program Eligibility Criteria

The strategic goal of the TIFIA program is to leverage limited Federal resources and stimulate private capital investment in transportation infrastructure by providing credit rather than grants to projects of national or regional significance. Some of the major requirements of the program include:

- An eligible project generally must cost at least $100 million or 50 percent of the state's annual Federal-aid highway apportionments, whichever is less; there is a lower cost threshold of $30 million for intelligent transportation systems (ITS) projects;
- The Federal TIFIA contribution is limited to 33 percent of project costs;
- The project's senior debt obligations must receive an investment grade rating (Baa3/BBB-) from at least one of the major credit rating agencies;
- The project is subject to Federal requirements (Civil Rights, National Environmental Policy Act, Uniform Relocation, Titles 23/49); and
- The project must receive the necessary state/local approvals (transportation plans and policies).

TIFIA project sponsors may be public or private entities, including state and local governments, special purpose authorities, transportation improvement districts, and private firms. TIFIA project eligibility also is broad, encompassing the whole range of surface transportation projects:

- Highways and bridges;
- Intelligent transportation systems;
- Intermodal connectors;
- Transit vehicles and facilities;
- Intercity buses and facilities;
- Freight transfer facilities; and
- Passenger rail vehicles and facilities.

continued on page 2

FY 1999 TIFIA Project Selections

Project	Total Cost (in millions)	Credit Award (in millions)
Miami Intermodal Center (FL)	$ 1,349	$ 433
Farley-Penn Station (NY)	749	160
Tren Urbano Light Rail (PR)	1,654	300
Washington Metro Capital Program (DC)	2,324	600
State Route 125 South (CA)[1]	397	127
Total	**$ 6,473**	**$ 1,620**

[1] This project received a conditional selection for FY 2000 funding.

Also in this issue …

TIFIA, continued from page 1

For more information about the TIFIA program, including specifics on the available credit instruments, please refer to the TIFIA web site at **http://tifia.fhwa.dot.gov**.

Anticipated FY 2000 Schedule

Upon completion of the inaugural round of TIFIA selections at the end of FY 1999, the USDOT had contemplated the possibility of two solicitations for TIFIA proposals in FY 2000 – an early round in the spring and a later round in the summer or fall. However, the USDOT now has determined that there will be just one TIFIA solicitation this year – probably in the summer – for the following reasons:

1. Based on informal feedback from project sponsors, the financial community, and other observers, including participants in recent USDOT workshops, the potential demand for TIFIA assistance appears to be greatest later in the year when large projects have had more time to develop and prospective applicants have had more time to prepare financial plans and meet application requirements.
2. The USDOT plans to weight the eight statutory selection criteria for FY 2000 and subsequent rounds of TIFIA selections. The USDOT initially implemented the TIFIA program last year by treating each of the selection criteria equally. Now, based on program experience, congressional intent, and Administration priorities, the USDOT will propose different weights for the selection criteria.
3. The USDOT also plans to clarify certain other program provisions for the benefit of future borrowers.

The USDOT plans to revise the TIFIA rule through public notice and comment, then publish a solicitation for proposals. Letters of interest and formal applications will be due in early summer, and selections will be made before the end of the fiscal year in September.

The table above reflects the USDOT's current schedule and is subject to change depending on events over the next few months.

The USDOT is authorized to provide up to $1.8 billion in TIFIA credit support in FY 2000 and another $2.2 billion in FY 2001. Potential TIFIA project sponsors are encouraged to consult the TIFIA web site or contact

continued on page 3

Tentative TIFIA Schedule for FY 2000

Spring - Summer	USDOT plans to publish a Notice of Proposed Rulemaking (NPRM) to revise the TIFIA rule by weighting the selection criteria and clarifying other provisions. USDOT receives and assesses public comments on the NPRM, and publishes the revised TIFIA rule.
May	USDOT publishes a solicitation for FY 2000 TIFIA project proposals.
June	Deadline for submission of letters of interest.
July	Deadline for submission of formal applications.
September	USDOT selects the next round of TIFIA projects.

TIFIA Trivia

The USDOT Responds to Your Questions

Starting with this edition, ***IFQ*** will print the USDOT Credit Working Group's responses to interesting questions about the TIFIA program posed by our readers and other observers. We hope you find this "TIFIA Trivia" section useful and that you will submit questions, concerns, or comments to either of the ***IFQ*** co-managing editors (Max Inman or Suzanne Sale, FHWA). In this way, we hope that ***IFQ*** facilitates communication between the USDOT and its transportation partners and ultimately improves the implementation of the TIFIA program as well as other finance initiatives.

Question

Do states that plan to participate in the TIFIA program have to be concerned about any effect on their regular Federal funding? In other words, could Federal-aid apportionments be intercepted or offset by the USDOT to ensure repayment of TIFIA credit?

Answer

No. A state's Federal-aid apportionments will not be affected by participation in the TIFIA program. The TIFIA program funding authorized by TEA-21 ($530 million through FY 2003) is available to cover expected losses of credit instruments. This funding essentially is a capital reserve for unrecovered losses resulting from TIFIA defaults. To the extent such funding is not sufficient to cover actual losses, the USDOT has borrowing authority from the U.S. Treasury to make up the difference. Therefore, the USDOT will not intercept or otherwise affect a state's regular Federal funding to ensure repayment of TIFIA credit. The TIFIA program is designed to absorb credit risks associated with project construction and operation. However, it should be noted that the USDOT can apply an administrative offset relating to a payment default in cases of criminal acts or wrongdoing.

TIFIA, continued from page 2

the USDOT directly (please refer to the contact list on page 11 for up-to-date information on the program). Also, future issues of ***IFQ*** will provide updates on the TIFIA program implementation.

Is Your Eligible Project Ready to Apply for TIFIA Assistance?

If you are developing a transportation project that meets the basic eligibility criteria outlined above, you need to consider carefully when your project should assemble its plan of finance and apply for TIFIA assistance (assuming your project requires or could benefit from Federal credit support). Prospective applicants should keep in mind that eligible projects must meet certain requirements throughout the TIFIA process, from application to selection to commitment to funding. For example, prior to submitting an application to the USDOT, the sponsor must satisfy the following key requirements:

- The project's estimated eligible costs must meet the appropriate threshold amount and the credit request is not more than 33 percent of those costs;
- The project is consistent with the state's long-range transportation plan and, if located in a metropolitan area, the project is included in the metropolitan transportation plan;
- The project sponsor has, at a minimum, circulated a Draft Environmental Impact Statement (DEIS) or received either a Finding of No Significant Impact (FONSI) or a Categorical Exclusion;
- The project sponsor has developed a comprehensive financial plan that includes detailed cash flows and identifies specific revenue sources that will be used to secure the TIFIA credit instrument(s); and
- The project sponsor has obtained at least one preliminary rating opinion letter from a major credit rating agency that confirms the investment grade potential of the project's senior debt obligations and assesses the default risk of the proposed TIFIA credit instrument(s).

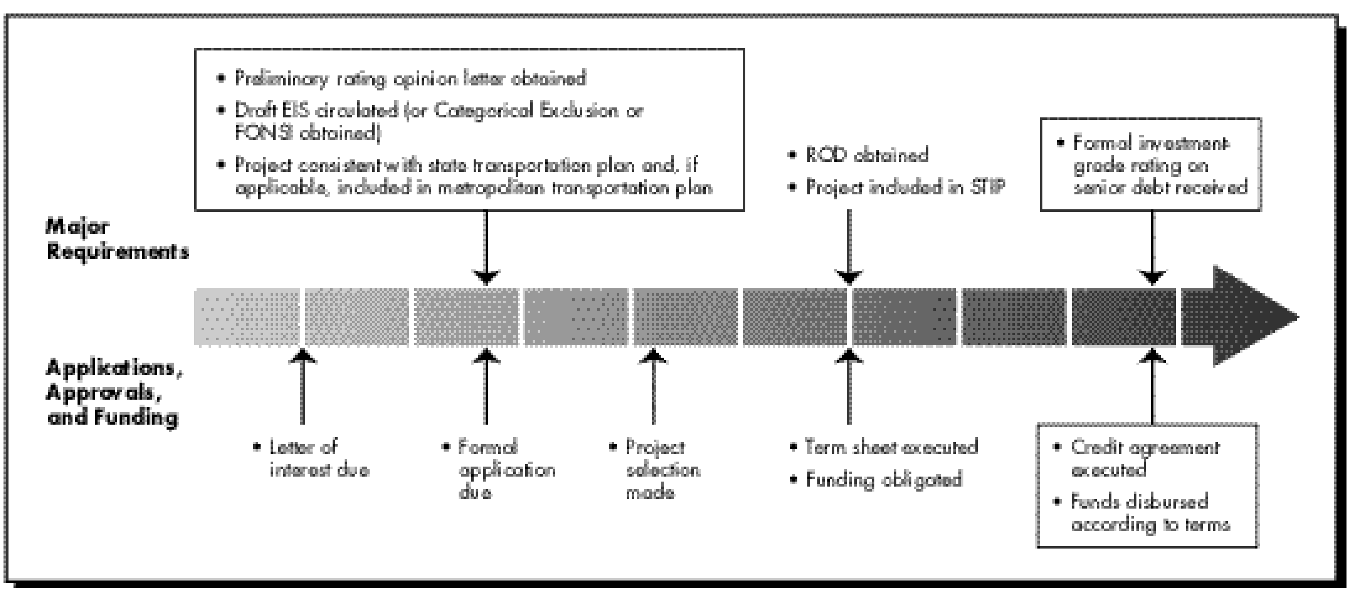
Prospective applicants are strongly encouraged to contact the USDOT prior to submitting applications to ascertain the eligibility and readiness of their proposed projects. It is important to remember that the above requirements represent minimum prerequisites for TIFIA application. Before the USDOT can subsequently commit TIFIA assistance or fund a credit instrument, for example, the sponsor must satisfy additional requirements such as:

- The project must be included in the approved Transportation Improvement Program(s) of the relevant state(s);
- The project sponsor has received a Record of Decision (ROD), a FONSI, or a Categorical Exclusion, as appropriate; and
- The project sponsor has obtained at least one rating letter from a major credit rating agency that conveys an investment grade rating (Baa3/BBB-) on the project's senior debt obligations and assesses the default risk of the proposed TIFIA credit instrument(s).

The chart below illustrates the relative timing of some of the key requirements that must be met throughout the TIFIA process.

Contact:
Bryan Grote,
Office of the Secretary,
USDOT,
202/366-9656.

Major Documentation Required During the TIFIA Process



GARVEE Roundup

The State of the States on GARVEEs

Since the last issue of ***IFQ***, a number of states have continued to develop their Grant Anticipation Revenue Vehicle (GARVEE) programs. In early March 2000, through a competitive sale, Arkansas sold its first GARVEE issue of $175 million out of a total of $575 million bonds authorized by the legislature. This groundbreaking GARVEE issue was rated Aa2 by Moody's and AA by Standard & Poor's.

The Arkansas GARVEEs achieved a better than expected true interest cost (TIC) of 5.2 percent. (TIC is a method of computing interest cost that recognizes the time value of money.)

Other states have also made progress toward issuing GARVEE bonds. Colorado is continuing to develop its voter-approved Revenue Anticipation Note (RAN) program (Colorado's GARVEE mechanism), approved by the voters in November 1999. In Alaska, the governor announced plans to issue up to $350 million worth of GARVEEs for several transportation projects. The legislature is in the early stages of considering the governor's plan. The Arizona DOT is moving forward with a $400 million Grant Anticipation Notes (GANs) program, and plans to sell the first issue of $50 million this summer.

Transit Grant Anticipation Notes

Like highway agencies, transit agencies can also borrow against future Federal-aid funding. While transit bonding is quite similar to highway bonding, the transit bonds are referred to as GANs.

The idea is the same, however: the agency issues bonds secured with a pledge of Federal-aid assistance, thus amassing up-front capital, and pays down the bonds over a period of time as the Federal funds are received.

TEA-21 contained certain provisions that enhanced transit agencies' ability to borrow against future Federal aid. For example, the additional security of TEA-21's "firewall" provisions (separating transportation funding from appropriations for other domestic purposes) was one factor that helped make it possible for transit agencies to pledge Federal aid as the sole source of repayment, without having to encumber other transit revenue sources.

Just as the Federal-aid highway program and transit programs have different procedures for receiving funds, the mechanics of transit GANs are different from the GARVEE bonds issued for highway purposes. To aid in an understanding how transit GANs work, a brief review follows of the basic funding mechanisms for transit programs.

Funding Mechanics – Transit Programs

In contrast to Federal highway funding, most Federal transit funding is provided directly to transit agencies or units of local government, rather than state DOTs.

Two-thirds of Federal-transit funding is apportioned by formula (referred to as "formula funds"), while one-third is allocated on a discretionary basis ("discretionary funds") by Congress and the Federal Transit Administration (FTA).

> **GARVEEs:**
> ***A Semantic Note***
>
> To avoid confusion, FHWA has decided to clarify that the term "GARVEE" (Grant Anticipation Revenue Vehicle) refers only to debt repaid directly with Federal-aid funds under the provisions of the National Highway System Designation Act of 1995, as codified in Section 122 of Title 23 of the U.S. Code, but not debt that may be indirectly linked to Federal reimbursements.

The major FTA funding categories include:

Section 5307

Section 5307 funds may be used for purchase of buses, trains, ferries, vans, and support equipment. As with highway apportionments, these funds are distributed by a formula based on population and transit characteristics and divided between urbanized and non-urbanized areas.

Section 5309

- *Fixed Guideway Modernization* – These funds are for improvement of rail and fixed guideway projects. While technically a part of FTA's discretionary program, these funds are distributed based on a formula that applies only to rail, ferry, and other transit operators.
- *Buses* – These funds may be used for purchase of buses and improvements to bus facilities.
- *Fixed Guideway New Starts* – These funds may be used for new rail systems and line extensions.

The bus and New Starts programs are discretionary and project-specific; no state or local area is guaranteed a specified share of these funds (as is the case with formula funds), and there is no adjustment based on population or other statistical factors. These funds may be legislatively earmarked at the time of the initial authorization (such as in TEA-21), or the funds may be annually appropriated by Congress to specific projects.

FTA recommends projects to Congress for funding, but Congress ultimately decides which projects will receive funding in the appropriations process.

Transit GANs Backed by Formula Funds

Under the 1982 Surface Transportation Uniform Relocation and Rehabilitation Act (STURRA) interest costs were

continued on page 5

GARVEEs, continued from page 4

made eligible for reimbursements for both formula and discretionary programs. Interest reimbursement was limited to the “best available municipal financing rate” for discretionary programs, and to the “average current market rate” for formula funds, as determined by FTA.

Although many transit agencies have used Federal reimbursements as one of the sources of funds for repayment of revenue bonds, no agency had issued bonds backed solely or primarily by anticipated Federal formula reimbursements until New Jersey’s Certificates of Participation (COPs) issuance in 1998 (see box on page 5).

States have been increasingly interested in borrowing against Federal-aid funds since TEA-21 has enhanced both the security and amount of transit funding, as well as simplified FTA interest reimbursement provisions. The interest rate allowed in TEA-21, for all capital programs, is the best rate reasonably available at the time of financing.

Transit GANs Backed by Full Funding Grant Agreements

Essentially, transit projects that are noted in legislation without specific dollar amounts have a “hunting license” that makes them eligible for discretionary funding, but does not guarantee that they will receive it.

For transit New Starts projects that are offered more than one year’s worth of funding, FTA is required to enter into multi-year agreements known as Full Funding Grant Agreements (FFGAs). FFGAs indicate FTA’s intention to support a project, up to a specified level of funding.

An FFGA will typically specify the maximum level of Federal participation, and the schedule of funding for the project (e.g., $400 million, at $50 million per year for eight years).

However, FFGAs are subject to appropriation, fulfillment of Federal requirements, and FTA priorities. Each fiscal year, FTA makes recommendations on which projects will receive funding, and publishes a notice in the Federal Register indicating the level of funding provided to each project.

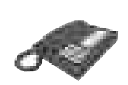
While transit agencies may use the discretionary funds provided through FFGAs to repay debt, these funds are not guaranteed to arrive on schedule because they are subject to annual appropriations. Because discretionary funds provided under an FFGA are project-specific, there is limited ability to shift funds between projects in the event of a shortfall.

Thus, the credit risks for a transit GAN backed by a discretionary FFGA may be higher than for a transit GAN backed by formula funding at an equivalent coverage level. A grantee can increase coverage levels by borrowing less than the FFGA amount (essentially providing the coverage required for a good rating opinion) so that even if Congress appropriates significantly less than the budget request, there is likely to be enough of an appropriation to at least cover required debt service.

Two examples of past transactions that have explicitly relied on a pledge of future FFGA funding include the Hudson-Bergen Light Rail project and the San Francisco BART to the Airport Extension.

The Hudson Bergen Light Rail project in New Jersey was supported primarily by a transit GAN, issued against anticipated discretionary funding. As a secondary pledge, the financing was also backed by a pledge from the state’s transportation trust fund, in the event that FFGA funds were not forthcoming.

The Bay Area Rapid Transit (BART) district received a private line of credit from several banks, backed solely by a pledge of future discretionary funds for its BART to San Francisco airport extension project.



Contacts:
Paul Marx, FTA,
202/366-1675
or
Jennifer Mayer, FHWA,
415/744-2634.

A Transit GAN Close-up: New Jersey Transit

New Jersey Transit Corporation (NJT) issued $151.5 million of Certificates of Participation (COPs) in March 1999, solely backed by anticipated Section 5307 formula funding. Proceeds were used to purchase 500 buses, as part of an overall bus purchase of 650 buses. COPs, a variation on GANs, are created as a part of a lease-purchase agreement, whereby the lender, the holder of the certificate, owns a right to participate in periodic lease payments (interest and return of principal) as they are paid. In this case, the lease payments are made with Federal-aid funds. NJT chose this COPs structure because it did not have statutory authority to issue bonds.

The transit corporation was well-positioned to borrow against the formula funds because, since 1989, it has received most of New Jersey’s Federal transit funds. Under TEA-21, NJT is slated to receive over $150 million per year through 2003. The increased level of TEA-21 funding provided substantial coverage for the semi-annual lease payments for this COPs issue. Repayments are scheduled through the end of 2008, six years after TEA-21 expires.

In January 2000, NJT issued another round of COPs financing, raising $234 million. These funds will purchase a set of double-decker rail cars. This 15-year issue will extend significantly beyond TEA-21’s expiration in 2003, spanning three authorization periods (assuming that future authorizations are at least six years each).

SIB UPDATE

State DOTs Opt for Increased State Capitalization of SIBs

Although TEA-21 limited additional Federal SIB capitalization to four states, several states, recognizing the benefits of the concept, have pursued state capitalization to meet loan demands.

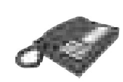
State Infrastructure Bank Loan and Loan Agreements by State
March 2000

	State	Number of Agreements	Loan Agreement Amount ($000)	Disbursements to Date
1	Alaska	1	$ 4,600	$ 0
2	Arizona	5	157,964	12,807
3	Arkansas	1	20	0
4	Colorado	2	400	400
5	Delaware	1	6,000	6,000
6	Florida	8	54,218	2,559
7	Indiana	1	3,000	0
8	Iowa	1	739	592
9	Maine	14	1,315	327
10	Michigan	19	13,060	6,282
11	Minnesota	2	21,560	10,532
12	Missouri	4	47,770	41,770
13	Nebraska	1	1,500	0
14	New Mexico	1	541	541
15	New York	1	125	125
16	North Carolina	1	1,575	1,575
17	North Dakota	1	1,565	1,565
18	Ohio	21	106,544	60,529
19	Oregon	4	5,960	5,735
20	Pennsylvania	8	6,103	393
21	Puerto Rico	1	15,000	15,000
22	Rhode Island	1	1,311	1,311
23	South Dakota	1	992	992
24	Tennessee	1	1,875	0
25	Texas	8	33,232	30,818
26	Utah	1	2,888	2,888
27	Vermont	3	1,030	0
28	Virginia	1	18,000	18,000
29	Washington	1	700	0
30	Wisconsin	1	388	388
31	Wyoming	1	15,000	15,000
		117	**$ 524,975**	**$ 236,129**

Both Arizona's and Ohio's SIBs reflect increased activity as a result of state funding. Arizona has loaned a total of $158.0 million through March 2000, accounting for nearly 30 percent of the SIB loans nationwide as shown in the accompanying table. Ohio ranks second in loan volume with loans totaling $106.5 million, but is first in the number of loans made with 21 loans under agreement. Ohio has capitalized its bank with $30 million in state funds. Arizona's initiative to enhance its program with state funding is discussed in the following article.

Florida, one of the four new pilot SIBs under TEA-21, has legislation under consideration to establish a state-funded SIB for transportation improvements.

This issue of ***IFQ*** spotlights Arizona's and Florida's SIB programs.



Contact:
Phyllis Jones,
FHWA,
202/366-2854.

Arizona Expands SIB with State Funds

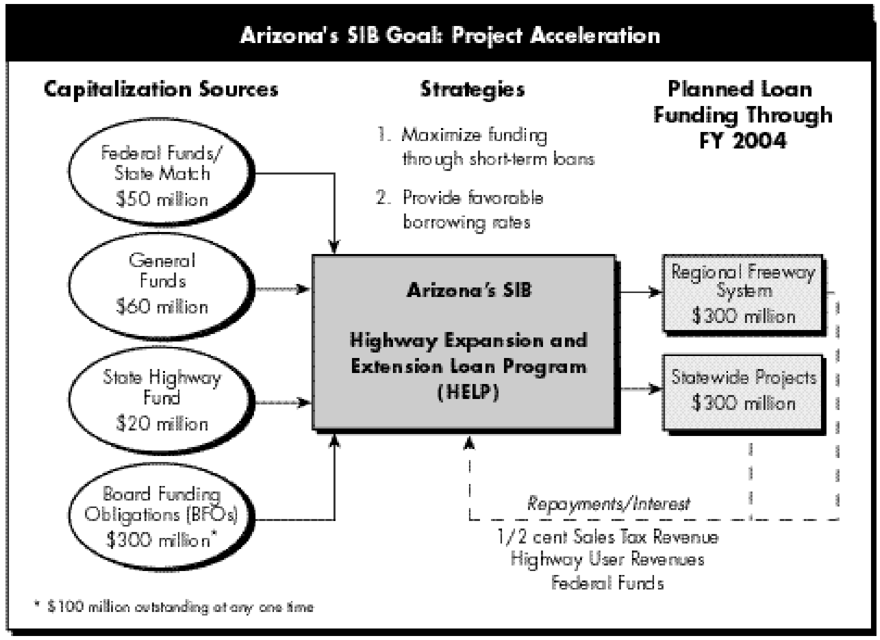
Following its selection as one of the 10 pilot states authorized to administer a State Infrastructure Bank (SIB) program under the provisions of the National Highway System Designation Act of 1995 (NHS), the Arizona Department of Transportation (ADOT) proactively moved forward with SIB implementation. Initially, the program was advanced under existing legislation. However, in order to realize the full benefits of this new concept, comprehensive state legislation was enacted in 1998 (HB 2603). Arizona's SIB is designated as the Highway Expansion and Extension Loan Program (HELP). The HELP program provides flexible financial solutions for Arizona's growing highway needs.

The HELP Fund was initially capitalized with Federal highway dollars up to the maximum authorized under the NHS Act and state matching funds. HELP operates similar to a bank, providing financial assistance in the form of loans or credit enhancement for eligible transportation projects across the state.

continued on page 7

Arizona, continued from page 6

While the maximum capitalization of the HELP fund is limited to approximately $50 million under the Federal program, landmark legislation (SB 1201) passed in 1999 greatly expanded the amount of HELP loan funds available for transportation projects in Arizona.



Senate Bill 1201 enhanced funding to the HELP program through a combination of direct appropriation, additional state highway funds and the creation of an innovative financing mechanism called Board Funding Obligations (BFOs). This legislation allows the State Transportation Board to issue up to $300 million of BFOs. The State Treasurer purchases the BFOs and the Transportation Board pays back principal and interest due on the BFOs from program funds. The interest rate on the BFOs is tied to U.S. Treasury rates. This innovative approach to capitalization allows the HELP program to receive much needed additional capital and the State Treasurer to invest general fund monies at a market interest rate. The first issue of BFOs was authorized in October 1999 and will provide $100 million for loans to advance urban freeway projects in Maricopa County. Additional issues of BFOs are planned in 2001 and 2004.

In addition, SB 1201 appropriated $20 million from the State Highway Fund in FY 2000 and a total of $60 million from the State General Fund over a three year period beginning in FY 2001 ($20 million annually). Over the next eight years, the new funding sources provided to the HELP program by Senate Bill 1201 will provide approximately $600 million in loans for highway projects throughout Arizona as the $380 million in new capitalization is leveraged through short-term loans.

Arizona's HELP program accepts applications for loans from cities, towns, counties, tribal governments and state agencies, including the Department of Transportation. While no loans have been made yet to an Indian tribe, discussions are under way to explore the possibility of a joint loan with the Department.

Loan activity of the HELP program has increased rapidly since its inception in 1998. Since the first two pilot loans were approved in 1998 for $50 million, four more HELP loans, totaling $108 million, have been approved.

Loan amounts have ranged from $300,000 to $100,000,000. Currently there is not a limit on the maximum amount of any one loan, and eligible projects include all types of road improvements. Interest rates on the loans are tied to municipal bond rates, and may be subsidized if the applicant for a loan is a local jurisdiction.

A simplified application form, standardized loan documentation, and the reduced costs of borrowing are attracting more borrowers to the HELP program each month. Through the use of innovative capitalization techniques, the Arizona HELP program is providing the funds necessary to meet the increasing demand for project financing.

Contact:
Shawn Dralle, Arizona Department of Transportation, 602/712-4352.

Florida SIB Gains Momentum

In July 1999, Florida entered into a new cooperative agreement with FHWA as one of the four pilot SIBs authorized under TEA-21. To date, $25,600,000 has been deposited in the TEA-21 SIB account. The previous SIB, authorized by the National Highway System Designation Act of 1995, was capitalized with a total of $48,519,297 in the Highway Account and $10,812,500 in the Transit Account.

The SIB program in Florida has been quite active since inception. The majority of early loans were made to advance construction for existing Florida Department of Transportation (FDOT) projects. Even though the SIB was made available to private and other governmental entities, the program initially was not widely embraced.

FDOT hosted a Florida Transportation Finance Workshop in July 1999 and

continued on page 8

Florida, continued from page 7

invited county, city, and other governmental entities to participate. The workshop was designed to discuss innovative leveraging tools and concepts being used in Florida. Participants were asked to discuss current transportation needs, revenue sources, and leveraging programs, and to identify options to leverage funds as appropriate. Key financial managers and consultants from other states outlined successful leveraging programs that were taking place throughout the nation.

The workshop was extremely successful and acted as a catalyst for generating greater interest among governmental entities in the potential of innovative SIB funding. Since the workshop, interest in the SIB has escalated rapidly and applications are being submitted for a variety of projects.

The current plan for SIB funding will leverage $2.2 billion in total project costs with $283.1 million in SIB loans. Three examples of projects recently awarded SIB funds are the Miami Intermodal Center, the Wonderwood Expressway, and the Palm Tran bus replacement program. The Miami Intermodal Center is a $1.35 billion project which will alleviate congestion, improve road designs and pedestrian access, consolidate rental car activity, and increase air quality by reducing congestion. The $25 million SIB loan makes it possible to accelerate the project by 24 months resulting in $178 million in cost savings.

The Wonderwood Expressway is a $110 million freeway and bridge project which will provide an east-west corridor and an important emergency evacuation route in Jacksonville. The $21 million SIB loan will be repaid within two years, and will result in cost savings by accelerating the design and build schedule by five years.

The Palm Beach County Transit Authority has 85 buses that are at or near retirement age. An $8.8 million SIB loan will enable the Authority to replace 50 of these vehicles four years ahead of schedule. Total cost of the purchase is $13 million and the SIB loan will be repaid in four equal payments beginning in 2005.

Florida intends to build upon its SIB success by adding another powerful innovative financing vehicle. There is currently legislation before the 2000 Florida Legislature that will provide for the creation of a "flexible" state SIB. Projects funded by this state SIB would not need to follow Federal requirements. This measure would restore the focus of the original SIB and allow a more flexible SIB program by providing assistance through loans to a wide range of transportation projects based on the benefits being provided by the project.

Contact:
Lowell Clary, Florida Department of Transportation, 850/414-4455.

TECHNICAL CORNER

Colorado Advances Major Multimodal Project Through Innovative Financing

Through a collaborative effort of the Colorado Department of Transportation (CDOT), the Regional Transportation District (RTD), FHWA, and FTA, Colorado is embarking on the largest surface transportation project ever undertaken in the state, the Southeast Corridor, a multi-modal project costing approximately $1.66 billion. The Southeast Corridor links the two largest employment centers in the region – the Southeast Business District and the Denver Central Business District.

The Southeast Corridor is truly an innovative transportation project from both an engineering and a financial standpoint. It is a joint project between a state DOT and a regional transit agency which utilizes a single design/build contract for both transit and highway improvements. This project will be financed with a combination of Federal transit discretionary funds, a direct GARVEE bonding program, a local bonding program, state funds, and local funds. In November 1999, voters overwhelmingly approved two bond initiatives to accelerate the Southeast Corridor project.

The Southeast Corridor is a multimodal project comprised of highway widening, safety improvements, and light rail transit components. The highway improvements consist of reconstructing and widening 14 miles of I-25 and four miles of I-225. On I-25 there will be one additional highway lane in each direction between Broadway and I-225 and two additional highway lanes in each direction from I–225 and C-470. On I-225 there will be one additional lane in each direction. The light rail portion of the project is 19 miles in length. It will be grade separated, double tracked, and have 13 light rail stations and park-and-rides.

CDOT and RTD have entered into an intergovernmental agreement that provides the framework for their joint effort to finance and construct the corridor improvements. A single design/build contract will be used for the design and construction of both the highway elements and light rail. The design/build request for proposals is expected to be issued in the summer of 2000, with selection of the contractor by spring of 2001. Construction is scheduled to begin in the summer of 2001 with a summer 2008 completion date.

The funding for the Southeast Corridor project will be accomplished through a multi-agency initiative, involving the

continued on page 9

Colorado, continued from page 8

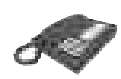
commitment of funds from the four project partners – CDOT, RTD, FHWA, and FTA.

CDOT's share of the funding will be provided through the issuance of $671 million of GARVEE bonds. These bonds were authorized by the Colorado legislature in 1999 as part of comprehensive funding package to finance nearly $5 billion in Strategic Corridor projects which include the Southeast Corridor and 27 other projects of statewide significance. In addition, the funding legislation transfers $200 million in sales and use tax revenues to CDOT annually to finance the Strategic Corridor projects. Because Colorado law requires voter approval for all tax increases and debt financing transactions, CDOT was required to seek voter approval in November 1999 for the issuance of its bonds. By a majority of 62 percent, Colorado voters approved CDOT's initiative to sell bonds to accelerate construction of these Strategic Corridor projects. The first bonds will be issued in May of 2000. They will be 15-year direct GARVEE bonds repaid with future Federal and state matching funds.

RTD will also secure up-front financing for the Southeast Corridor project through the issuance of sales tax revenue bonds, since a pay-as-you-go approach will not provide sufficient cash balances for a project of this magnitude. RTD also sought voter approval in November 1999 for the issuance of debt to partially finance the transit portion of the Southeast Corridor project. Like the CDOT initiative, voters overwhelmingly approved RTD's ballot measure.

In addition, RTD and CDOT are currently pursuing a full funding grant agreement (FFGA) with FTA in the amount of $525 million, which when combined with the issuance of $320 million in sales tax revenue bonds and $30 million in local funds, will allow the District to fund the light rail portion of the Southeast Corridor project.

The Southeast Corridor project exemplifies the innovation that is taking place today as transportation agencies meet the challenge of limited resources and growing infrastructure needs. Through partnerships, innovative delivery, and leveraging Federal resources with GARVEE mechanism, CDOT and the RTD are building the Southeast Corridor project years earlier, and at a lower cost, than would have been possible under traditional approaches.



Contact:
Heather Dugan, Colorado Department of Transportation, 303/757-9168.

Southeast Corridor Project Funding

$1.66 Billion Estimated Total Cost

Revenue Source	CDOT	RTD
FTA Full Funding Grant Agreement (FFGA)		$ 525 million
Bond proceeds	$ 671 million *	$ 320 million **
Sales and use tax revenues	$ 117 million	
Local funds		$ 30 million
Total	**$ 788 million**	**$ 875 million**

* Federal and state matching funds will be used for debt service.
** RTD will use sales and use tax revenues to repay its debt related to the Southeast Corridor.

TE-045 Update

The Test and Evaluation Project 045, known as the TE-045 program, continues as a key initiative of FHWA to expand transportation infrastructure investment. Through this program, states, communities, and the private sector have the opportunity to submit proposals for unique and innovative financing ideas which can be tested for implementation.

The TE-045 program serves as a benchmark for non-traditional financing approaches and the results to date have been significant. As of September 1999, TE-045 had supported 98 projects in 24 states with a total construction value of over $7 billion.

Since publication of an evaluation report of TE-045 in November 1996, nine new proposals from states have been approved. Three of these approved proposals are briefly described below.

New Mexico Citizens Highway Assessment Task Force (CHAT) Major Investment Program

As part of its GARVEE financing, New Mexico proposed and received approval to provide the state match for a program of projects instead of project-by-project match. FHWA is also allowing New Mexico to use tapered net present value (NPV) to calculate state match. New Mexico will bill FHWA based on the principal and interest costs for the bonding portion of the program.

Capital Avenue Corridor, South Bend, Indiana

Indiana requested and received approval to consider prior local and toll revenue contributions as matching funds for the remaining phases of construction. All revenue for the previously completed portion of the Corridor was contributed by various local funds. As a condition of approval, Indiana DOT will prepare a

continued on page 10

TE-045, continued from page 9

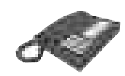
report for FHWA on the various impacts of advancing this project segment without concurrent matching funds from non-Federal sources.

Spokane Transportation Operations Center, Spokane, Washington

Washington State DOT proposed using the present value of future Federal-aid payments to fund a long-term capital lease for the operations center. Receiving the present value of the Federal share of the lease cost up-front in lieu of nominal amounts on an annual basis allowed the project sponsor to secure a long-term lease at a reduced cost.

Many of the techniques tested under TE-045 are now available to states as part of the regular Federal-aid program as a result of the enactment of TEA-21. These include tapered (or variable) match, program level match for Surface Transportation Program (STP) projects, and flexible match.

Recognizing the value of this program in moving projects into construction more quickly or increasing the non-Federal investment in projects, FHWA invites states or other sponsors to submit proposals for innovative financing approaches through their respective FHWA Division. The submission should include a brief description of the project, a detailed description of the type of innovative finance mechanism your agency proposes to use, and a summary of the benefits (i.e., economic, safety, time savings, etc.) the use of the innovative finance tool would provide to the project.



Contact:
Max Inman, FHWA,
202/366-0673.

UPCOMING EVENTS

Second National Conference on Transportation Finance

Scottsdale, Arizona—August 20-23, 2000

This conference will bring together representatives of the public and private sectors in a national forum to address innovative approaches to financing transportation projects.

The conference is intended to 1) assess recent financing experiences and innovations, 2) identify and analyze the factors that make successful projects possible, 3) explore needed new organizational changes and potential public policy shifts, 4) evaluate the impact of new and emerging technologies on transportation finance, and 5) propose new financing initiatives to address future needs for transportation system development.

This conference builds on the success of the first Transportation Research Board (TRB) National Conference on Transportation Finance held in Dallas, Texas in April 1997. The 2000 Conference is being co-sponsored by the Transportation Research Board and USDOT modal agencies (FHWA, FTA, and Federal Railroad Administration).

This three-day conference will be held at the Hyatt Regency at Gainey Ranch, Scottsdale, Arizona. The conference begins on Sunday afternoon, August 20, 2000 with the following three workshops: 1) Innovative Finance Concepts; 2) Transportation and the Capital Markets; and 3) a CEO Workshop for State DOTs. The formal opening of the conference will be at 8:00 am on Monday, August 21, 2000 and the conference will close on Wednesday, August 23, at noon.

For the most current information on the conference program and registration, visit the conference home page on the Internet at **http://www4.nationalacademies.org/trb/calendar.nsf** or contact Jon Williams, TRB, at 202/334-3205.

Finance Primer Under Development

FHWA is preparing a comprehensive resource handbook, or primer, describing innovative financing techniques. The *Project Finance Primer* will: 1) provide Federal, state, local, and private agencies with detailed information on new project finance mechanisms for surface transportation projects; 2) provide practical, case-oriented information relating to emerging financial strategies; and 3) provide overviews of best practices among state and local transportation agencies advancing programs and projects with the use of innovative finance mechanisms. Achieving these goals will lead to a more successful utilization of these mechanisms.

The primer will summarize a broad range of financial strategies, including cost-cutting tools, revenue sources, finance mechanisms, and innovative contracting procedures. The structure of each strategy will be defined including eligibility requirements, case studies, benefits, and legal, political, and institutional issues. A future issue of ***IFQ*** will provides additional details on the primer, which is scheduled to be completed in late summer of 2000.

USDOT Innovative Finance Team Contact List

Federal Highway Administration

Max Inman
Tel: 202-366-2853
Email: max.inman@fhwa.dot.gov

Robert C. Brown
Tel: 202-366-6813
Email: robert.brown@fhwa.dot.gov

Phyllis Jones
Tel: 202-366-2854
Email: phyllis.jones@fhwa.dot.gov

Suzanne Sale
Tel: 602-379-4014
Email: suzanne.sale@fhwa.dot.gov

Mark Sullivan
Tel: 202-366-5785
Email: mark.sullivan@fhwa.dot.gov

FHWA Western Resource Center
Ian Carroll
Tel: 415-744-2650
Email: ian.carroll@fhwa.dot.gov

Jennifer Mayer
Tel: 415-744-2634
Email: jennifer.mayer@fhwa.dot.gov

FHWA Southern Resource Center
Frederick Werner
Tel: 404-562-3680
Email: frederick.werner@fhwa.dot.gov

Federal Railroad Administration

JoAnne McGowan (RDV-12)
Tel: 202-493-6390
Email: joanne.mcgowan@fra.dot.gov

Federal Transit Administration

Paul Marx (TPB-10)
Tel: 202-366-1675
Email: paul.marx@fta.dot.gov

Office of the Secretary

Bryan Grote
Tel: 202-366-9656
Email: bryan.grote@ost.dot.gov

Stephanie Kauffman
Tel: 202-366-9649
Email: stephanie.kauffman@ost.dot.gov

Contributors to Vol. 6, No. 1 of *IFQ* include:

Roger Berg, Cambridge Systematics, Inc.
Lowell Clary, Florida Department of Transportation
Shawn Dralle, Arizona Department of Transportation
Heather Dugan, Colorado Department of Transportation
Bryan Grote, Office of the Secretary, USDOT
Max Inman, FHWA
Phyllis Jones, FHWA
Jennifer Mayer, FHWA, Western Resource Center
Suzanne H. Sale, FHWA

FHWA's INNOVATIVE FINANCE Quarterly

SUZANNE H. SALE, FHWA
CO-MANAGING EDITOR
602/379-4014
FAX: 602/379-3608
SUZANNE.SALE@FHWA.DOT.GOV

MAX INMAN, FHWA
CO-MANAGING EDITOR
202/366-0673
FAX: 202/366-7493

LAURIE L. HUSSEY, CSMANAGING EDITOR
CAMBRIDGE SYSTEMATICS, INC.
617/354-0167
FAX: 617/354-1542
LLH@CAMSYS.COM

A REMINDER TO READERS

FHWA DOES NOT MAINTAIN A MAILING LIST AND DOES NOT DISTRIBUTE *IFQ* DIRECTLY. *IFQ* IS AVAILABLE AS AN INSERT TO THE ***AASHTO JOURNAL***, AND IS AVAILABLE ELECTRONICALLY THROUGH FHWA's WWW HOME PAGE:

http://www.fhwa.dot.gov/innovative finance/

IFQ IS ALSO PROVIDED TO THE FOLLOWING ORGANIZATIONSFOR REDISTRIBUTION AND/OR AS INFORMATION FORTHEIR MEMBERSHIP:

- American Public Works Association (APWA)
- Surface Transportation Policy Project (STPP)
- National Governor's Association (NGA)
- National Association of State Treasurers (NAST)
- National Association of State Auditors, Controllers, and Treasurers (NASACT)
- National Association of Regional Council's (NARC's) Association of MPOs (AMPO)